

Policy Matters

Export Caution

Forecasts can Miss Potholes and Bumps

As you might imagine, we spend a lot of time here at APAC looking at the future of agriculture. We've also spent a lot of time urging caution on the part of folks who feel we are on the brink of an agricultural boom.

One of the things we hear often about lately is China's prospects as a huge grain consumer in the coming years. Since a large share of U.S. grain production is exported, export levels can have a big impact on crop net returns.

Oversimplified, the case for optimism about China generally goes like this (see figures on the next page): China's annual GDP growth is expected to hover around 8 percent to 9 percent. With higher personal income, the Chinese people generally will eat more meat. More demand for meat means increased livestock production,

which requires more feed grain. The U.S. is the biggest feed grain exporter, and there you have it.

According to the U.S. Department of Agriculture (USDA), Chinese officials eventually expect to import between 5 percent and 12 percent of the country's annual grain needs. For a country with 1.2 billion people and phenomenal GDP growth (i.e., the money to spend), that's a lot of grain.

Over the past few years, China's agriculture policy gurus apparently concluded that with transportation infrastructure and arable land lacking, China should shift attention away from grain production to fruits and vegetables. This shift takes advantage of China's primary resource: cheap labor.



For the United States, these policy shifts have major implications for feed grain producers around the turn of the century. Some projections put China feed grain imports in the range of 20-35 million metric tons by 2005. The high end of that range is more than a tenfold increase from the 2.8 million metric tons of feed grain imports which China averaged during 1994-96.

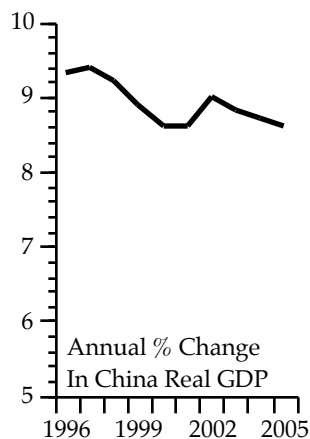
How would that affect U.S. feed grain producers? In about the ways you might imagine. By most projections, the United States will garner most of this higher demand, and corn export volume increases severalfold by 2005, according many forecasts.

Higher corn demand increases demand for its substitutes, like soybeans and wheat. Interestingly, however, export value for these commodities does not appear to reach historical U.S. record levels by 2005.

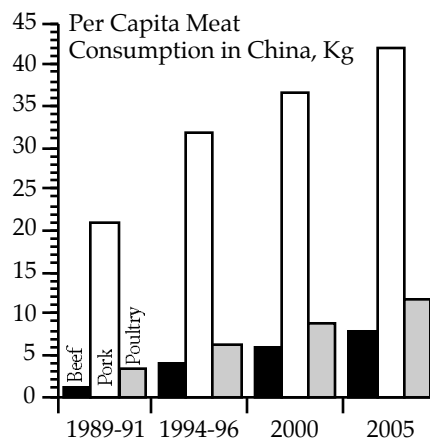
Moreover, the logic supporting these projections is not the sturdiest of foundations upon which to build optimism.

China's ability to make the transition from grain to an agriculture which focuses on more land- and labor-intensive crops may not be as strong as expected. China has a few thousand years of tradition built into its production of grains, and that's the kind of agriculture that will be hard to change in just a few years.

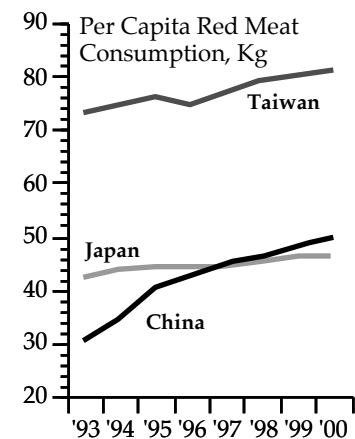
Speaking of culture, it's not at all certain that people in an Eastern culture will eat more meat simply because personal income is higher. Currently, Chinese per-capita consumption of red meat is close to the level of Japan – a country with a relatively high level of personal income (see figure below). At the same time, Taiwanese consumption of meat is substantially higher than China or



Source: WEFA Group

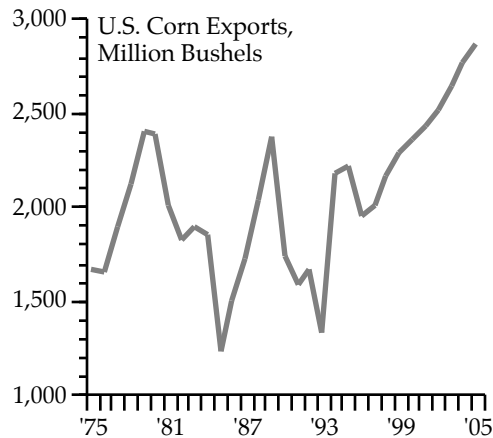


Source: USDA



Source: USDA

The forecast: higher income dramatically increases meat consumption, but not as high as in some Asian countries



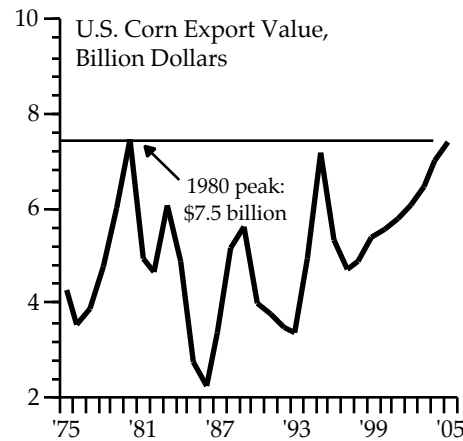
Sources: USDA, FAPRI

Although many anticipate record increases in U.S. corn exports...

Japan. The point is, the link between higher income and higher meat consumption is not at all certain.

Even as late as 1993, China was not only a net feed grain exporter, but it was a major exporter. Before allowing China to become a major corn importer, Chinese officials may instead turn to agribusiness for an aggressive response to that country's domestic needs. Such a move requires resolving the intellectual property rights issues which currently keep agribusinesses out of China. Under such a scenario, the big agricultural opportunity in China might be for agribusiness and not for production agriculture.

Optimistic expectations for China's feed grain demand also ignore the ability of other countries to bring additional production on line. After



Sources: USDA, FAPRI

...The total value of corn exports doesn't quite reach record levels

all, following the grain shortages of the 1970s, many countries had brought additional agricultural production on line by the early 1980s.

Finally, there are several political dimensions to consider: (1) It was not too long ago that the U.S. government linked progress on China trade issues with human rights concerns; (2) there have been relatively few countries this century which have had both central economic planning and rapidly expanding personal income; and (3) the influence of Western culture on China's economic development will have unforeseeable impacts.

We hope that the current optimism is, indeed, warranted. But the bottom line with export forecasts or any time salesmen come calling is this: if it looks too good to be true, then it probably is.



We Welcome Your Letters

Unsure about how the Export Enhancement Program works? Need to know about crop disaster insurance waivers? Do you have policy questions you'd like us to answer? Write Daryll Ray, APAC's director, at 301 Morgan Hall, Knoxville TN 37901-1071. Or email us at dray@utk.edu. Or even call us at (423) 974-7407. Include a daytime telephone number in any correspondence, and we may use your question in a future issue of *Policy Matters*. Either way, we'll be sure you get an answer.

Unless otherwise noted, this newsletter may be quoted or reproduced without permission. A credit to the Agricultural Policy Analysis Center (APAC), however, would be appreciated.

The University of Tennessee Institute of Agriculture does not discriminate on the basis of race, sex, color, religion, national origin, age, handicap, or veteran status in provision of educational opportunities or employment opportunities and benefits. The UT Institute of Agriculture does not discriminate on the basis of sex or handicap in the education programs and activities which it operates, pursuant to the requirements of Title IX of the Education Amendments of 1972, Public Law 92-318, and Section 504 of the Rehabilitation Act of 1973, Public Law 93-112, respectively. This policy extends both to employment by and admission to The University.

Inquiries concerning Title IX and Section 504 should be directed to the Office of Affirmative Action: 403-C Andy Holt Tower, The University of Tennessee, Knoxville: (615) 974-2498. Charges of violation of the above policy should also be directed to the Office of Affirmative Action.

Policy Matters was created by the Agricultural Policy Analysis Center (APAC) at The University of Tennessee Institute of Agriculture to share information on the impacts of farm policy on the business decisions of Tennessee farmers and on the economics of agriculture.

What is APAC? The University of Tennessee felt strongly enough about the need to examine farm policy that in 1991 it established the Blasingame Chair of Excellence in Agricultural Policy. The next year, it formally established the Agricultural Policy Analysis Center (APAC) around the Blasingame Chair.

Producing *Policy Matters* gives us at APAC a vehicle to communicate our work with you. We hope you come to rely on this newsletter and on us as a valuable source of objective information about policy matters.

<p>Agricultural Policy Analysis Center The University of Tennessee Institute of Agriculture 310 Morgan Hall Knoxville, TN 37901-1071</p>	<p>Non-Profit Org. Permit # 481 U.S. Postage PAID The Univ. of Tenn. Knoxville</p>
---	--